



## UNDERSTANDING HEALTH CARE COSTS

### PART III: HEALTH SPENDING TRENDS FOR PRIVATELY INSURED 2006-2008

This report is the third in a new series from the Massachusetts Division of Health Care Finance and Policy (DHC FP) on health care costs—what they are, what drives them, and how the health care market works. This report focuses on trends in medical spending and on how uses of medical services affect total health care costs.

#### How Medical Spending Relates to Overall Health Care Costs

On average, in Massachusetts more than 88% of health insurance premiums are spent on medical expenses with the rest attributable to health insurer administrative and other non-medical expenses. Spending on medical services, therefore, greatly influences the health insurance premiums that families and business pay each year and has been a key driver in increased health insurance premiums in recent years.

#### Major Trends in Medical Spending

- **Per person spending is rising:** Between 2006 and 2008, private spending per insured individual for health care in Massachusetts grew by 15.5 percent, or 7.5 percent each year.
- **Price per service is rising more than utilization:** Price increases (as opposed to utilization or volume increases) were the major driver of growth in spending for most health care services.
- **Much of the increase in spending went towards outpatient hospital services:** Outpatient services include medical procedures, imaging, and laboratory, which can be provided without an overnight stay in a hospital. Growth in spending for care in outpatient hospitals was due in large part to growth in the prices and volume of imaging services (such as MRIs and CT scans), medical procedures and cancer therapies provided.
- **Spending on physician and professional services also contributed to the growth:** Spending on physician and professional services represent the part of the payment that goes to the actual medical professional caring for the patient – either in an inpatient setting or during an office visit.
- **Large employer groups experienced faster growth in per person medical spending than small employers:** Health spending per member for employer-sponsored insurance grew slightly faster for large firms (with 500+ employees), at 16.6 percent for the three year period, than for the mid-size (with 50-499 employees) and small (with fewer than 51 employees) firms, which both grew 15.4 percent during the same time period.
- **Employees are paying a greater share of total health care costs:** Over the three-year period, employees' out-of-pocket spending on co-pays, coinsurance and deductibles grew as a percent of health spending for consumers purchasing coverage directly and for employees in small (<51) and mid-sized (51-499) firms. There was not a similar trend for employees of large firms. These trends are a result of the fact that many employers are reducing the richness of the health insurance benefits they offer.

#### About the DHC FP

The mission of the Division of Health Care Finance and Policy is to improve health care quality and contain health care costs by critically examining the Massachusetts health care delivery system and providing objective information, developing and recommending policies, and implementing strategies that benefit the people of the Commonwealth.

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